

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
SIL-01 OMB-01 DODE-00 PM-05 H-01 L-03 NSC-05
PA-01 SS-15 USIA-06 EA-10 DOE-15 SOE-02 OES-07
/125 W

-----102462 231339Z /72

R 231247Z MAR 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5659
INFO ALL EC CAPITALS

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USEEC

PARIS ALSO FOR USOECD

E.O.11652:N/A
TAGS: EFIN, EEC
SUBJECT: EC COMMISSION ON ECONOMIC POLICY GUIDELINES

REF: (A) BRUSSELS 16968

1. SUMMARY: THE EC COMMISSION HAS FURTHER LOWERED ITS FORECAST FOR COMMUNITY GDP GROWTH IN 1978 BY 1/2 PERCENT TO 2.8 PERCENT. HOWEVER, THIS LARGELY REFLECTS A WEAKER STARTING POINT; GROWTH WITHIN THE YEAR IS PUT AT 4-4 1/2 PERCENT. CAUTIOUSLY EXPANSIONARY POLICY GUIDELINES ADOPTED IN NOVEMBER ARE CONSIDERED TO BE STILL APPROPRIATE, WITH EFFORTS TO EXTEND THE RECOVERY TO MORE MEMBER STATES, AND WITH A CLOSE WATCH ON THE STRENGTH OF THE RECOVERY AND THE ADEQUACY OF EXPANSIONARY POLICIES ADOPTED SINCE THE AUTUMN. END SUMMARY

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2. THE EC COMMISSION HAS FORWARDED TO THE COUNCIL A COMMUNICATION REVIEWING ECONOMIC DEVELOPMENTS IN THE COMMUNITY IN RELATION TO THE OBJECTIVES SET OUT IN THE ANNUAL REPORT (ADOPTED NOVEMBER 21 - REF A), AND CONSIDERING WHETHER ANY ADOPTION IS NECESSARY IN THE ECONOMIC POLICY GUIDELINES SET OUT IN THE ANNUAL REPORT.

3. THE COMMISSION FINDS THAT MEMBER STATE POLICIES WERE GENERALLY IN LINE WITH THE GUIDELINES LAID DOWN IN THAT REPORT. CAUTIOUS EXPANSIONARY BUDGETARY MEASURES HAVE BEEN ADOPTED IN MOST MEMBER STATES (ITALY THE PRIMARY EXCEPTION), WITH THE RESULT THAT BUDGETARY POLICIES ARE NOW GENERALLY SET ON AN "EXPANSIONARY TACK" OR, AT LEAST, LESS STRINGENT THAN IN 1978. A MORE RAPID EXPANSION IN MONETARY AGGREGATES IS ALSO OBSERVED IN MOST MEMBER STATES, A PRINCIPAL FACTOR BEING INFLOWS OF FOREIGN FUNDS.

4. THE OUTLOOK FOR 1978 IS NOW LESS FAVORABLE THAN IN NOVEMBER, OWING LARGELY TO A WEAKER STARTING POINT, AS GROWTH IN THE LATTER PART OF 1977 FELL SHORT OF EXPECTATIONS. EC GROWTH FOR 1977 IS NOW ESTIMATED TO HAVE FELL SLIGHTLY SHORT OF 2 PERCENT, COMPARED WITH THE 2 1/2 PERCENT FORECAST IN NOVEMBER. ONE FACTOR IN THIS WEAK TREND, THE COMMISSION NOTES, WAS THAT THE STIMULUS PROVIDED BY EXTERNAL DEVELOPMENTS FELL SOMEWHAT SHORT OF EXPECTATIONS, PARTICULARLY FOR JAPAN AND THE SMALL INDUSTRIALIZED COUNTRIES OUTSIDE THE COMMUNITY. INTERNAL DEMAND IN THE COMMUNITY STOPPED DETERIORATING IN THE AUTUMN, AND SHOWS SOME FAVORABLE SIGNS IN THE UK, FRANCE, GERMANY, BELGIUM AND IRELAND.

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5. THE LATEST COMMISSION FORECAST SHOWS GROWTH FOR THE COMMUNITY AS A WHOLE AT 3.8 PERCENT COMPARED WITH 3.3 PERCENT FORECASTED IN NOVEMBER AND WELL BELOW THE 4-4 1/2 PERCENT TARGET ADOPTED IN NOVEMBER. HOWEVER, THIS YEAR-ON-YEAR INCREASE WOULD IN FACT REQUIRE GROWTH OF 4 TO 4 1/2 PERCENT WITHIN THE YEAR, WHICH THE COMMISSION CONSIDERS AMBITIOUS. INDEED, THE COMMISSION NOTES, THIS RATE PRESUMES SOME CONTINUED IMPROVEMENT IN BUSINESS AND CONSUMER CONFIDENCE AND MODERATELY STRONG EXPANSION OUTSIDE THE COMMUNITY (SEE BELOW). THE IMPLEMENTATION OF EXPANSIONARY MEASURES IN JAPAN AND THE UNITED STATES, AND THE FREEZE IN THE PRICE OF OIL ARE FAVORABLE FACTORS, BUT "CHANGES IN THE EXCHANGE RATE STRUCTURE AS A RESULT OF THE WEAKNESS OF THE DOLLAR" COULD INHIBIT GROWTH APPRECIABLY. (COMMENT: WE ARE PRIVATELY TOLD THAT COMMISSION SERVICES HAVE ESTIMATED THE ADVERSE IMPACT AT ABOUT 1/2 PERCENT OF GDP.)

6. REGARDING THE REMAINING ECONOMIC OBJECTIVES, THE COMMISSION NOTES IMPROVEMENTS IN INFLATION RATE TRENDS WHICH COULD BRING IT BELOW 7 PERCENT IN 1978, ACHIEVING

THE COMMUNITY OBJECTIVE, ALTHOUGH DIVERGENCES AMONG MEMBER STATES WILL PROBABLY BE GREATER THAN ORIGINALLY EXPECTED. THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT REGISTERED A SMALL SURPLUS (\$0.5 BILLION) IN 1977, AND THE COMMISSION NOTES THAT ALTHOUGH IMPORTS SHOULD INCREASE IN 1978, THEY WILL "REMAIN TOO LOW TO MAKE AN EFFECTIVE CONTRIBUTION TO THE ADJUSTMENT OF PAYMENTS BALANCES AT WORLD LEVEL."

7. THE COMMISSION STATES THAT THE GENERAL POLICY GUIDELINES OF THE ANNUAL REPORT REMAINS VALID, I.E., COORDINATED EXPANSIONARY POLICIES, IN PARTICULAR FISCAL POLICIES. NOW, "A COMMON EFFORT MUST BE MADE TO CONSOLIDATE THE RECOVERY" EXTENDING IT TO A GREATER LIMITED OFFICIAL USE

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NUMBER OF STATES, AND THE STRENGTH OF THE RECOVERY AND EFFECTIVENESS OF RECENT EXPANSIONARY MEASURES MUST BE

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SIL-01 OMB-01 DODE-00 PM-05 H-01 L-03 NSC-05
PA-01 SS-15 USIA-06 EA-10 DOE-15 SOE-02 OES-07
/125 W

-----102522 231340Z /72

R 231247Z MAR 78
FM AMEMBASSY BRUSSELS
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CLOSELY WATCHED.

8. ECONOMIC ASSUMPTIONS ON WORLD OUTPUT AND TRADE
INCLUDE (PERCENT CHANGE ON PRECEDING YEAR):

-- -- -- 1977 1978

GDP - DEVELOPED COUNTRIES -- 3 1/2 4

--- EXCLUDING EC -- 4 4

WORLD IMPORTS - VOLUME -- 5 5

--- EXCLUDING EC -- 5 1/2 5

DEVELOPED COUNTRY IMPORTS - VOLUME 5 5

--- EXCLUDING EC -- 7 4 1/2

LDC IMPORTS - VOLUME -- 7 6 1/2

OF WHICH OPEC -- 15 12

9. GROWTH, INFLATION, AND UNEMPLOYMENT FORECASTS FOR
INDIVIDUAL EC COUNTRIES:

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-- -- -- GDP GROWTH PRIVATE CONSUMPTION

-- -- -- (PERCENT CHANGE) DEFLATOR (CHANGE)

-- -- -- 1977 1978 1977 1978

DENMARK 0.9 1.5 10.5 10.5

GERMANY 2.6 3.1 3.9 3.5

FRANCE 2.3 2.7 9.3 7.0

IRELAND 5.6 6.0 13.6 6.5

ITALY 1.8 1.7 18.5 12.0

NETHERLANDS 2.4 2.1 7.0 5.5

BELGIUM 2.4 2.3 6.5 5.5

LUXEMBOURG 1.1 1.4 6.7 4.0

UNITED KINGDOM 0.1 3 1/2 14.9 8.4

TOTAL EC 1.9 2.8 9.6 6.9

--- --- --- UNEMPLOYMENT RATE

--- --- --- 1977 1978

DENMARK --- 5.9 6.4

GERMANY --- 4.0 4.1

FRANCE --- 5.1 5.1

IRELAND --- 9.4 8.9

ITALY --- 6.9 7 1/4

NETHERLANDS --- 4.2 4.5

BELGIUM --- 7.4 7.3

LUXEMBOURG --- 0.8 1.4

UNITED KINGDOM --- 5.7 6.0

TOTAL EC --- 5.4 5.6

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